

LOWER PAXTON TOWNSHIP **2015 SUMMARY OF BUDGETS**

The General Fund is the primary operating fund for Lower Paxton Township. By law, this fund operates on a calendar year basis, and the budget for this fund is balanced. In 2015, budgeted General Fund revenues and expenditures are balanced at \$20,985,300. This budget is based upon a real estate tax rate of 1.700 mills.

The State Aid Fund has been established in accordance with the PA Liquid Fuels Tax Act 655 of 1956 and exists as a sub-component of the General Fund. From this fund, the Township deposits and expends its annual allocation of state tax revenues on liquid fuels for maintenance and construction of local roads. In 2015, the State Aid Fund expects revenues and expenditures of \$1,223,749.

The General Fund balance on September 30, 2014 was \$7,269,848. This fund balance provides for cash flow needs, emergencies, and for significant capital projects undertaken through the General Improvement Fund. At this time the fund balance is in accordance the minimum threshold of 25% of annual expenditures, as established by policy of the Board of Supervisors.

The General Improvement Fund is used by Lower Paxton Township to fund one-time capital projects. In 2015, General Improvement Fund expenditures for capital projects are budgeted at \$4,042,500.

The Fire Equipment Capital Plan covers nine pieces of primary apparatus possessed by the Township's three volunteer fire companies. The 2015 fiscal year will begin with a Fire Equipment Capital Fund balance of approximately \$1,184,000.

The Length of Service Award Program (LOSAP) provides a defined benefit stipend to volunteer firefighters and/or fire police officers who meet certain criteria. The LOSAP Fund balance is expected to be \$445,000 at the beginning of the 2015 fiscal year.

The Friendship Center recreation facility operates as an "enterprise" entity, a quasi-business with revenues coming primarily from user charges to fund operations, debt service, and capital facilities. The Friendship Center 2015 Operating Fund possesses revenues and expenditures of approximately \$2.2 million.

The Lower Paxton Township Authority (LPTA) also operates as an "enterprise" entity, providing sanitary sewer service throughout most of the Township. The LPTA 2015 Operating Fund expects revenues of \$14,403,451 against expenditures of \$13,930,621. LPTA expenditures for capital projects in 2015 are

expected to be \$11,104,000. The LPTA is expected to possess cash-on-hand of \$24.5 million at the beginning of the 2015 fiscal year.

The Police Pension Fund possessed a balance of \$20,151,240 at the end of November 2014, and the Non-Uniformed Employee Pension Fund possessed a balance of \$13,825,860. Both plans are minimally distressed, as defined by PA Act 44 of 2009, due to a ratio of assets to liabilities falling between 70% and 90%.

Historical Trends:

Over the last five years (2009 to 2013) General Fund expenditures decreased on average by .05% per year. Revenues increased on average by 1.58% per year (2009 to 2013). These figures have been calculated using actual operating revenue and expenses, and do not include bond proceeds or transfers for capital expenditures.

Differences between General Fund revenues and expenditures in individual years can be averaged into general trends. In 2004 through 2007, Lower Paxton Township had moderate growth in revenues at rates greater than regional rates of inflation. Then in 2008 and 2009, there were 3% declines each year in overall revenues, attributed to the “great recession” and the resulting decline in building and housing sales. In 2010, there was a 1% decline in overall revenues as the economy started a slow process to recovery. In 2011, there was a 9% increase in revenue, due mainly to changes in the collection and disbursement of State Aid pension monies and changes in the recognition of the Earned Income Tax. In 2012 there was a 7% increase in revenue as the economy continued to recover and the Township continued cost cutting measures. The 2013 fiscal ended with a 3% decrease in revenues as economic recovery slowed, but there was also a 3% decrease in expenditures as Township cost cutting measures continued.

The “great recession” had a significant adverse impact on Township finances. Development activity revenues (Real Estate Transfer Tax and building permits) declined to levels not seen in 20 years. Earned Income Tax revenues, the Township’s single largest revenue source, fell by 13% in 2008-09 and 9% in 2009-10. These reductions in revenues forced the Township to adjust expenditures across the board.

Prior to 2009, annually there was more rapid growth in General Fund expenditures than the rate of growth in revenues, as the Township increased the levels of services it provides in response to ongoing community development. Then in 2009, the Township was forced to significantly adjust its spending to address the “great recession.” Operating departments were prohibited from making non-essential expenditures, and cost cutting measures were on-going throughout municipal operations. The 2010 and 2011 budgets were prepared carrying forward mid-year 2009 financial adjustments made by the Board of Supervisors and staff, thus enabling the Township to reduce overall expenditures. The 2012 and 2013 fiscal years ended with significant balances of

revenues over expenditures allowing the Township to add to its fund balance for the first time since the “great recession.” These positive results in 2012 and 2013 were due to both improved economic conditions and maintenance of the reduced spending plan for municipal services.

Future Financial Conditions:

As previously noted, General Fund expenditures, prior to the “great recession,” were increasing at rates greater than the growth of revenues. This trend produced two issues of future financial concern. First, on a pure straight-line basis, the rate of municipal expenditures for operations was trending towards expenditures outpacing the Township’s ability to generate sufficient revenue.

Second, in the years prior to 2012, there were no significant year-end additions to the General Fund balance. In those years there were deficits, mostly due to ongoing capital projects, of \$99,000 in 2006, \$542,000 in 2007, \$2,470,000 in 2008, \$1,850,000 in 2009, \$1,685,000 in 2010, and \$93,005 in 2011. As a result, the Township’s fund balance fell below the Supervisors’ threshold set at 25% of annual expenditures.

In 2012 there was a year-end balance of \$1,166,843 and in 2013 there was a year-end balance of \$1,830,503, both not including liquid fuels. As such, the fund balance threshold has now been met and exceeded. However, the impact of the “great recession” still impacts the Township’s ability to generate revenue and has resulted in the maintenance of reduced levels of municipal services, making any projection of future financial conditions difficult, at best.

General Fund Balance:

It is the policy of the Board of Supervisors to maintain a General Fund balance equal to or greater than 25% of budgeted expenditures for the current fiscal year.

At the beginning of 2015, the General Fund balance is expected to be approximately \$7.2 million. According to Board policy, 25% of the \$20,985,300 budgeted for expenditures is \$5,246,325 and as such, an equivalent amount of the General Fund balance should be held in reserve.

General Fund Debt:

To supplement the General Fund balance and supply additional capital to the General Improvement Fund for significant capital projects, the Township issued \$2,000,000 in new debt in 2012. Funds from the 2012 bond issue were spent by the end of the 2013 fiscal year. Also in 2012, the Township received a PA Infrastructure Bank (PIB) loan in the amount of \$750,000 for road maintenance and improvement projects. All PIB loan proceeds were spent by the end of the 2013 fiscal year. In 2013, the Township issued \$4,000,000 in new debt for capital projects, with funds to be spent over a three-year period.

In the first quarter of 2014, the Township issued General Obligation Bonds in the amount of \$32 million, with \$25 million allocated to the LPTA for continuation of the multi-year Infiltration and Inflow Rehabilitation Program. The remaining \$7 million was borrowed to support Township capital expenditures, including continuation of improvements to the storm sewer system, and rehabilitation of and an addition to the Public Works building.

Lower Paxton Township will possess General Obligation Bonds (debt guaranteed by its taxing authority) totaling approximately \$22 million at the beginning of the 2015 fiscal year. Annual debt service payments total approximately \$1.1 million, 4.5% of budgeted General Fund expenditures in 2015.

The Township's General Obligation Bond borrowing capacity is limited by the PA Local Government Unit Debt Act to 250% of its borrowing base. For PA local governments, the borrowing base is defined as the average of total General Fund revenues for the last three fiscal years or, generally speaking, \$20 million. Using these parameters, Lower Paxton Township's borrowing capacity is approximately \$50 million.